GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:978
ANSWERED ON:24.11.2000
CONTROL ON NON BANKING FINANCE SERVICES
GANGASANDRA SIDDAPPA BASAVARAJ;Y.S. VIVEKANANDA REDDY

Will the Minister of FINANCE be pleased to state:

(a) whether the Government have taken a decision to check the menace of non-banking finance companies and also to regulate their operations:

(b) if so, whether the Government propose to introduce a legislation in this regard;

(c) if so, the time by which the legislation is likely to be introduced; and

(d) the other measures taken to regulate the operation of NBFCs ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) to (d):- Reserve Bank of India (RBI) Act was amended in 1997 to enhance powers of regulation over the Non-Banking Financial Companies by Reserve Bank of India and strengthen the measures on protection of depositors` interests and takingeffective action against the delinquent NBFCs. A Task Force reviewed the regulatory framework after the RBI Amendment Act,1997 to address short comings in implementation and improve the regulatory framework. The Task Force recommended further changes in the regulatory framework which have been accepted by the RBI as well as Government and a separate legislation for regulation of Non-Banking Financial Companies is proposed to be introduced in the Parliament.

Comprehensive regulatory framework has already been put in place which is aimed at protecting the interests of the depositors and ensuring that Non-Banking Finance Companies functionon sound and healthy lines. The regulatory framework includes inter-alia compulsory registration, maintenance of liquid assets, transfer of at least 20% of net profit to reserve fund and empowering RBI to issue directions to NBFCs. RBI also taken action against errant NBFCs for various defaults and contravention of provisions of RBI Ac and directions issued thereunder.